



**Crestline Management, L.P.**  
**201 Main Street, Suite 1900**  
**Fort Worth, Texas 76102**  
**(817) 339-7600**

[www.crestlineinvestors.com](http://www.crestlineinvestors.com)

## **Form ADV, Part 2A – Disclosure Brochure**

Date: March 30, 2022

This brochure provides information about the qualifications and business practices of Crestline Management, L.P. If you have any questions about the contents of this brochure, please contact us at (817) 339-7600. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Crestline Management, L.P. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration with the SEC as an investment adviser does not imply that Crestline or any principal or employee possess a certain level of skill or training.

## **Item 2 - Material Changes**

In 2021, Crestline acquired Colonial Life Insurance Company of Texas, a stock life and health insurance company domiciled in the State of Texas. In 2022, the new Crestline affiliate was renamed “CL Life and Annuity Insurance Company.” Crestline Life and Annuity Insurance Company will act as primary cedant to Crestline Re SPC, an industry affiliate that is a Cayman Islands domiciled reinsurance company. From time to time Crestline Re SPC invests in investments alongside Crestline fund clients. See the section entitled, “Other Financial Industry Activities and Affiliations” for further discussion.

## Table of Contents

Item 4 - Advisory Business.....	4
Item 5 - Fees and Compensation.....	7
Item 6 - Performance-Based Fees and Side-By-Side Management .....	10
Item 7 - Types of Clients .....	11
Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss .....	12
Item 9 - Disciplinary Information .....	38
Item 10 - Other Financial Industry Activities and Affiliations .....	39
Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	43
Item 12 - Brokerage Practices.....	45
Item 13 - Review of Accounts .....	47
Item 14 - Client Referrals and Other Compensation.....	48
Item 15 - Custody.....	49
Item 16 - Investment Discretion.....	50
Item 17 - Voting Client Securities .....	51
Item 18 - Financial Information .....	53

## Item 4 - Advisory Business

Founded in 1997, Crestline provides attractive risk-adjusted returns for sophisticated asset owners. We use our credit expertise and innovative products to pursue value creation in global markets.

Crestline Management, L.P., or Crestline, and its affiliates sponsor and provide investment management services on a discretionary basis to private pooled investment funds and private managed accounts (single investor funds or entities), which are referred to in this brochure as the clients or fund clients, that employ a variety of investment strategies. Depending upon the type of strategy permitted by the relevant fund client's constituent and offering documents, which are referred to in this brochure as governing documents, and/or the relevant fund client's mandate, a fund client may have an opportunistic investing strategy (blending structured equity, and private credit and seeking to capitalize on current market dislocations and inefficiencies), a lending strategy, hedge fund strategy (which consists of a multi-portfolio manager hedge fund and hedge fund of funds) and fund liquidity solutions strategy (including portfolio financing, Co-GP and fund restructuring). Crestline also provides "beta" solution services to certain fund clients and investors and also provides targeted due diligence services to certain investors upon request. The opportunistic investing strategy, lending strategy, hedge fund strategy, fund liquidity solutions strategy and the "beta" solution services are Crestline's core lines of business.

Fund clients with opportunistic investment strategies invest in a broad variety of financial instruments ranging from marketable securities and options to illiquid investments, including, without limitation, structured equity, private credit and debt instruments, across a variety of strategies. The goal of the opportunistic fund clients is to seek to achieve superior risk-adjusted returns over a finite period of time utilizing a flexible and opportunistic investment mandate that will tactically invest capital in order to seek to take advantage of market dislocations and inefficiencies through investments in (1) sectors Crestline believes have been underserved by traditional banks, (2) economic and market dislocations and (3) special situations. Fund client investments will generally take the form of (a) corporate solutions (debt or structured equity investments in small and medium sized businesses), (b) asset based (lending against or purchasing a single asset or a portfolio of assets with a cash flow stream attached), (c) stressed/special situations (typically a debt investment or asset purchase of an underperforming company or undervalued asset) and (d) hedges and derivatives related to the foregoing investments. Investments will consist of both debt and equity investments and will be primarily focused in the United States and Europe.

Crestline has also established a platform for alternative financing for middle market companies ("Specialty Lending"). Specialty Lending's objective is to achieve illiquidity premiums, while assuming less risk, over high-yield and broadly syndicated bank debt markets by making investments generally in directly originated middle market loans (or acquiring such loans in a secondary transaction such as a syndication or other market transaction). Crestline seeks to provide investors in Specialty Lending with (i) exposure to privately negotiated investments in middle market companies, (ii) downside protection by emphasizing investments in senior secured loans with conservative risk metrics and strong business fundamentals, (iii) high levels of current income, and (iv) potential for equity upside through warrants and small direct equity investments (only when made alongside Specialty Lending's debt investment).

With respect to its legacy hedge fund of funds strategy, which is in wind down, where it made allocations to portfolio managers, Crestline allocated, and from time to time reallocated, the capital of its fund clients to the investment discretion of portfolio managers by investing in the underlying private funds they manage, which are referred to in this brochure as the underlying private funds. Crestline also made some such allocations via Crestline-sponsored funds where such allocations are or were sub-advised or in some cases managed entirely by one or more third-party investment management firms subject to Crestline's oversight. The portfolio managers, in turn, invest those assets using a number of investment strategies.

With respect to funds within its equity strategy (collectively, "Crestline Summit" or "Summit"), Crestline engages third party sub-advisers and internal Crestline employees as portfolio managers to provide a continuous investment program, including investment research and discretionary management. In certain instances, the sub-advisers will be internal Crestline employees that will be compensated similar to third party sub-advisers. Crestline's investment strategy relies on its performance of extensive due diligence, which is discussed in "*Methods of Analysis, Investment Strategies and Risk of Loss*" for more details.

Furthermore, as part of the investment program of certain fund clients, Crestline previously acquired investments in underlying private funds directly from sellers of such funds via the secondary market and typically at a substantial discount to the underlying private fund's published net asset value (the "recovery fund strategy"). The clients or accounts utilizing this investment strategy are generally in wind-down.

Crestline also provides due diligence functions to certain clients by providing fundamental due diligence and analysis of discrete investment opportunities which may take the form of venture capital or private equity investments. Such investments may have unique catalysts for value realization such as initial public offerings, mergers, acquisitions or other business combinations which Crestline may advise an investor in as part of such investments.

When appropriate, Crestline creates special purpose vehicles to pool its fund clients' assets and invest in financial instruments (including loans) and to invest with portfolio managers. Crestline also invests its fund clients' assets through discretionary managed accounts, entities including Crestline-advised fund clients as investors, swaps or other similar products. Crestline tailors its advisory services to the requirements (including any client restrictions) of each of the fund clients it manages, as set forth in the private placement memorandum or the investment mandate in the relevant investment management agreement.

Crestline also has a "beta" solutions business that customizes portfolio overlay and hedging solutions for institutional investors according to the governing documents of the relevant fund client or investor. See the section entitled "*Methods of Analysis, Investment Strategies and Risk of Loss*" for further discussion.

Crestline provides investment advice through various affiliates and subsidiaries. Crestline Investors, Inc. is the general partner of Crestline Management, L.P. and Crestline Associates Holdings, L.P. Crestline Associates Holdings, L.P., or Associates, serves as the holding company of the general partner and special limited partner entities (that in some cases harvest incentive-based compensation) of certain of its fund clients. As needed, Crestline may create entities to serve as general partner to certain limited partnership investment funds. Certain fund clients have independent boards of directors. Specific detail regarding

general partner relationships and directorships can be found in each investment fund's offering memorandum or other constituent documents. Crestline Canada, Inc. and its subsidiary Crestline Canada Sub, L.P. are investment managers doing business in Canada that provide the "beta" overlay advice to Crestline Management, L.P. and certain Canadian trusts. Crestline-Kirchner, L.P. provides services to limited and general partners of private equity funds. Crestline Europe, LLP, a participating affiliate registered with the Financial Conduct Authority ("FCA"), serves as the European investment adviser and is helping Crestline with investment diligence and analysis for its clients on certain primarily European opportunities. Crestline Management, L.P. has been registered as an investment adviser with the Securities and Exchange Commission since 2002.

Crestline's principal owners are Mr. Douglas K. Bratton (and estate planning entities) and Thru Line L.P. (Thru Line L.P. does not have a management function or control of the filing adviser); minority owners include Ms. Caroline Cooley and Mr. John Cochran and three passive minority partners. The non-entity owners of Crestline also own Crestline Canada, Inc. Thru Line, L.P. is, alongside Crestline Canada, Inc., an owner of Crestline Canada Sub, L.P. Crestline utilizes other research affiliate entities in the ordinary course of business in New York and Tokyo, Japan.

As of December 31, Crestline's regulatory AUM computed pursuant to applicable SEC guidelines is \$20,096,895,576.

## Item 5 - Fees and Compensation

Each fund client sets forth its specific fee structure (including how it charges fees) in a confidential explanatory memorandum, similar disclosure document or account agreement provided to (in the case of an account agreement, executed by) prospective investors in the relevant fund client.

Crestline deducts fees from its fund clients either monthly or quarterly, and either in advance (but not more than three months in advance) or arrears depending on the individual fund client. Crestline deducts the fees directly from its fund clients. Crestline generally charges one of, or a combination of, the following:

1. management fees, which are computed on a percentage of assets under management (based on the net, total asset value before performance-based compensation, capital commitments or capital contributions depending on the client, as disclosed in the relevant governing documents), that, depending upon the terms in the governing documents or terms of side letter agreements with certain investors: (A) are on a sliding scale; (B) are subject to a minimum floor (expressed in dollars or as a percentage of assets under management); and (C) currently range from 0.25% per annum to 2.00% per annum depending on the fund client; and
2. performance-based allocations, performance-based fees and carried interest compensation, or performance-based compensation, which are computed on the percentage of capital appreciation the relevant fund client experiences, which range from 4% per annum to 20% per annum and which, depending upon the terms in the governing documents or terms of side letter agreements with certain investors, subject to a “hurdle,” “preferred return” and/or a “high watermark.” “Carried interest compensation” is a term that generally refers to performance-based compensation to the relevant fund’s general partner or investment manager after repayment of any capital contributions and an agreed upon preferred return to the investor when investments are realized. Crestline makes direct investments in securities for certain fund clients (as opposed to investments in underlying private funds) via special purpose vehicles, for which Crestline may receive additional performance-based compensation.

In computing net asset values on which to charge fees/allocations, Crestline applies the guidelines in its written valuation policy. All assets managed by Crestline are valued according to the valuation methodologies contained in its valuation policy and in accordance with U.S. Generally Accepted Accounting Principles (GAAP) – Accounting Standards Codification Topic 820, *Fair Value Measurement* (“ASC 820”).

Crestline generally does not negotiate its allocations and fees. Under special circumstances, however, Crestline enters into agreements with certain investors in its fund clients that provide different terms to those investors. Crestline has the discretion to waive or reduce its management fee and performance-based compensation for certain of its related persons or service providers invested in its fund clients.

Management agreements to which Crestline is a party are terminable based on the provisions outlined in each of the fund client’s governing documents and in each relevant management agreement. In the event

of termination of an investment advisory contract or management agreement, Crestline will prorate all unearned, prepaid fees and refund those unearned fees to the fund clients. Investors in those fund clients are, however, typically not able to withdraw their capital until the end of a quarter and, therefore, do not receive pro rata refunds. Certain of Crestline's illiquid fund clients are also subject to termination fees if terminated without cause as disclosed in the relevant governing documents.

In addition to the fees paid by the fund clients to Crestline Management, L.P. and to Associates (via the entities it owns), to the extent the particular strategy involves investing in underlying private funds or sub-advisors, they will generally also charge expenses, such as those set forth in the following paragraph, and an asset-based management fee and performance-based allocation or fee to the fund clients and that is paid by the fund clients, thereby resulting in two layers of expenses, fees and allocations. Also, non-Crestline fund client investors that directly invest in the separate managed account investment program will also pay fees to the external managers in addition to the fees paid to Crestline. However, Crestline fund clients that invest in the separate managed account investment program will not pay two layers of fees to Crestline.

Fund clients will also pay other expenses in addition to the fees paid to Crestline. For example, depending upon the terms in the governing documents, fund clients pay portfolio transaction costs, brokerage commissions, transaction fees, custodial and administration fees, audit and legal fees, registration, licensing, governmental filing fees, costs of background checks of portfolio managers and management of target investments, lender expenses, transfer taxes, wire transfer fees and other related fees and taxes. For information regarding expenses for research, see "Brokerage Practices". In addition, Crestline has the discretion to use the services of a third party as part of its diligence process (i.e. background checks and verifications); such diligence services are in addition to the due diligence conducted by Crestline and not in lieu of Crestline's extensive due diligence process. Crestline and/or its fund clients will pay for the cost of such services. Crestline and/or its fund clients absorb certain of Crestline's internal (i.e. legal, compliance, accounting, auditing, administration, servicing, travel, litigation, and indemnification costs and expenses), research and/or due diligence expenses (i.e. travel expenses incurred while visiting prospective or existing portfolio managers or in connection with diligence of other investments). Please refer to the relevant fund client's governing documents for further details, including as to whether the relevant fund client or Crestline will bear those expenses. The fund clients will also pay certain expenses of the underlying funds, including many of the fees disclosed above for the fund clients, and depending on the terms of the funds also pay management fees to those fund managers. See "Brokerage Practices" for further description of potential expenses.

Crestline Re SPC will pay fees to CL Life and Annuity Insurance Company ("CLIC") in exchange for the premiums CLIC will cede to Crestline Re SPC.

Certain principal owners of Crestline have an indirect ownership interest in Crestline Denali Capital, LLC, which is owned in part by Crestline Management, L.P. See the section entitled "Other Financial Industry Activities and Affiliations" for further discussion. Neither Crestline nor any of its employees accepts any other compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.





## Item 6 - Performance-Based Fees and Side-By-Side Management

Crestline receives performance-based compensation from certain of its fund clients. Crestline also manages fund clients that pay only asset-based fees and do not pay performance-based compensation or that pay lower performance-based compensation. Managing both types of fund clients creates potential conflicts of interest. Crestline can potentially receive higher fees from fund clients with higher performance-based compensation arrangements than from fund clients with lower performance-based compensation arrangements or from fund clients that pay only asset-based fees. As a result, Crestline may have an incentive to favor its fund clients paying the highest performance-based compensation by directing the best investment ideas to those fund clients or by taking on increased investment risk in the portfolios of those fund clients. Crestline has established investment allocation procedures designed to prevent these conflicts from influencing the allocation of investment opportunities among its fund clients and to ensure all of its fund clients are treated fairly and equitably and in accordance with the relevant fund client's investment strategy. When allocating investment opportunities, Crestline generally considers several factors, including, without limitation:

- investment strategy;
- limitations in the fund client's governing documents;
- current strategy allocation and concentration within each fund client;
- liquidity requirements;
- capital available for investment;
- anticipated redemptions and/or subscriptions by investors within each fund client;
- diversification within each fund client's portfolio; and
- the risk/return objectives of each fund client and minimum investment requirements of the underlying private funds.

Also, within its equity strategy ("Crestline Summit" or "Summit"), Crestline offers segregated portfolios that have one or more internal employees acting as a portfolio manager to the segregated portfolio. The internal portfolio managers earn fees typical of an external sub-adviser and such fees will not reduce the fees that Crestline earns related to the client fund. Further, Crestline has a portion of its portfolio (whose primary purpose is upsizing existing trades) managed internally but without an internal portfolio manager who earns fees typical of an external sub-adviser. Crestline may have an incentive to allocate a significant portion of available capital to such internally-managed portfolio because fees that Crestline earns related to the fund will not be reduced by fees paid to an external or internal portfolio manager.

In addition, performance-based compensation may create an incentive for Crestline to favor investments with a greater risk profile. Crestline recognizes that it owes fiduciary duties to its fund clients and will act in good faith and with fairness in all its dealings with its fund clients. Crestline will take its duties into account in dealing with all actual and potential conflicts of interest.

## Item 7 - Types of Clients

Crestline serves as the investment manager to private domestic fund clients that were formed for the benefit of U.S. investors, and private offshore fund clients that were formed for the benefit of non-US investors and U.S. tax-exempt investors. Fund clients include “pooled” investment funds as well as funds for single investors (including groups of affiliated single investors). Crestline also has a “beta” solutions business that customizes portfolio overlay and hedging solutions for institutional investors according to the governing documents of the relevant fund client or investor. Additionally, Crestline has a multi-portfolio manager investment program whereby fund client feeder funds participate in one or more segregated portfolios of the master fund (together the “segregated portfolio investment program”).

Investors in its fund clients including funds of one (“SMAs”) include:

- governmental plans, state pension and permanent funds, sovereign wealth funds;
- private retirement plans, corporate pensions, multi-employer pensions;
- financial institutions, insurance companies and other institutional clients;
- foundations, endowments and other charitable organizations; and
- family offices, and high net worth individuals.

Certain investors invest with Crestline via a managed account held at the investor’s designated custodian which is then managed by Crestline pursuant to an IMA between Crestline and the investor.

Crestline provides investment advisory services to one or more clients that are insurance companies. Additionally, Crestline’s affiliate, Crestline Re SPC, is a reinsurance company, and another Crestline affiliate, CL Life and Annuity Insurance Company, will acts as the primary cedant to Crestline Re SPC.

In determining whether to launch a fund client, Crestline will look to whether it will have sufficient capital to meet its fund client’s investment objectives and return goal. Crestline generally requires investors in its fund clients to be qualified purchasers, as defined in the Investment Company Act of 1940, as amended, and generally requires a minimum investment of \$1,000,000, although Crestline may accept and has accepted lesser amounts.

## **Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss**

Crestline provides discretionary investment advisory services for its fund clients with investment strategies that are opportunistic, including distressed investments, directly-originated (or syndicated loans or loans acquired in market transactions) middle market loans, bespoke financing and restructuring solutions for private funds or due diligence on unique opportunities for certain institutional clients, or generally multi-manager hedge fund portfolios (i.e. funds of funds) and a multi-portfolio manager investment program whereby fund client feeder funds participate in one or more segregated portfolios of the master fund (together the “segregated portfolio investment program”), and investments in funds acquired in the secondary market.

Crestline also has a “beta” solutions business that customizes portfolio overlay and hedging solutions for institutional investors according to the governing documents of the relevant fund client or investor. Beta management can be applied as a means of providing portable alpha and other beta management applications, such as portfolio hedging.

With respect to Crestline’s portfolio financing and fund restructuring strategies, Crestline will assess the underlying portfolio, may bring in relevant industry experts to develop a timeline and plan for value realization and will execute on such plan with the oversight of relevant stakeholders such as existing investors, advisory committees or independent boards of directors as applicable.

While the strategies set forth below are designed to reduce the risk of loss from investing, investing in securities involves a risk of loss that clients should be prepared to bear.

### **Investment Strategies**

As noted herein, the firm has fund clients that focus on opportunistic investments and credit related investments and fund clients that focus on hedge fund investments.

With respect to opportunistic and lending clients, those fund clients will make direct investments in securities, as opposed to via an investment in an underlying private fund, and certain fund clients will invest in middle market loans, whether directly originated or syndicated loans or loans acquired in other market transactions. With respect to the fund liquidity strategy, those fund clients provide financing to private equity and private investment funds in need of additional capital through the provision of loans to such funds, the acquisition of preferred equity in such funds or the provision of financings to underlying portfolio companies of such funds or other similar transactions.

With respect to fund clients pursuing hedge fund strategies, Crestline manages an equity long/short strategy and also manages a legacy diversified hedge fund program structured as funds of funds which is in wind down. Fund clients that invest in long/short equity strategies allocate assets to sector specialist portfolio managers whose stock selection is generally driven by fundamental analysis. The portfolio is run with controls on net market exposure and other risk factors. Leverage is used in the program to seek to achieve the targeted risk and return levels for the strategy.

Fund clients investing in other fund managers generally allocate assets to a variety of portfolio managers through direct investments in underlying private funds (partnerships, limited liability companies, corporations or similar limited liability entities) or segregated portfolio arrangements, through acquisition of investments in underlying private funds managed by portfolio managers via the secondary market and, in certain instances, through discretionary managed accounts, single purpose entities, entities consisting primarily of Crestline-advised funds or through swaps or other similar products.

With respect to fund clients that invest in portfolio managers or segregated portfolio arrangements, the underlying private funds in which Crestline invests pursue a variety of absolute return or event driven strategies including, without limitation, convertible arbitrage, derivative arbitrage, distressed securities/bank debt, bank loans, private credit, fixed income arbitrage, market-neutral equity, capital structure arbitrage, CTAs/managed futures, financing strategies, equity long/short, commodity relative value, credit/structured products, credit relative value, activist investments, merger arbitrage and special situations/other. Certain of these strategies involve complex and sophisticated analysis, modeling, and/or trading techniques, and involve complex, exotic, and/or hard to price securities. Additionally, many of these strategies involve leverage and/or varying degrees of operational and legal complexity and sophistication. A more detailed description of these strategies is set forth in the relevant fund clients' governing documents.

### **Investment Process**

#### **Opportunistic Investing**

Certain fund clients have an "opportunistic" investment strategy that will tactically invest capital in order to seek to take advantage of market dislocations and inefficiencies through investments in (1) sectors Crestline believes have been underserved by banks, (2) economic and market dislocations and (3) special situations. Crestline designed the opportunistic fund clients to have a more concentrated, less liquid portfolio with more overall market exposure. Dependent upon the fund client's governing documents, (i) investments can be made directly in securities or through portfolio managers and (ii) the fund client may engage sector specialists in connection with certain investments. A primary factor in opportunistic fund portfolio construction is the return profile of the target investment. Crestline adheres to a disciplined, focused investment screening and selection process with an emphasis on rigorous fundamental analysis and due diligence. The fund will also retain, in certain situations, external consultants, advisors and accountants to augment due diligence and/or investment monitoring. The investment team uses proprietary valuation models and methodology, internal resources and external relationships to evaluate opportunities and establish pricing and expected hold periods. Post investment closing, Crestline takes a continuous and methodical approach to monitoring and portfolio management that may include participating on the boards of a restructured fund and/or on the boards of selected underlying companies.

#### **Direct Investment Transactions**

Certain fund clients within Crestline's opportunistic investment strategy will make investments directly, singularly or via co-investments ("Direct Investments"). Certain fund clients in the opportunistic strategy invest solely or primarily in Direct Investments. Direct Investments (both in funds and certain managed accounts) will be internally managed or in concert with specialists in order to seek to maximize value. Crestline will generally construct its own Direct Investment deals but fund clients may invest with a

Portfolio Manager and may enter into a Direct Investment arranged or structured by a third party, which may include a third party Portfolio Manager. Crestline's employees and affiliate clients may also invest in parallel in some of these transactions. Crestline selects direct investing opportunities based on rigorous research and due diligence. The investment selection focuses on the reason for a transaction, macroeconomic risks, industry trends, unit economics, business operating risk, alternate exit strategies and downside mitigants, cash flow and valuation stress testing and management risks. When assessing the deal structure, Crestline will heavily scrutinize deal terms such as size, loan-to-value, return components, call protection, maturity, security/collateral, covenants, inter-creditor protections, tax structuring and compliance with Partnership terms.

The investment process with respect to direct investments is similar to the investment process involved in opportunistic investing and secondary market transactions. The investment team uses proprietary valuation models and methodology, internal resources and external relationships to evaluate direct investment opportunities and establish pricing and expected hold periods.

#### **Directly originated middle market loans**

Certain private fund clients make investments in middle market loans, whether directly originated or syndicated loans acquired in market transactions ("Direct Lending"). These private funds clients seek to primarily originate, invest in, or acquire privately negotiated loans to middle market companies. Crestline will adhere to a disciplined, focused investment screening and selection process with an emphasis on rigorous fundamental analysis and due diligence. Crestline will also retain, in certain situations, external consultants, advisors and accountants to augment due diligence. The investment process will generally be segmented into (1) preliminary analysis (including, identify key risk factors, loan repayment drivers and core areas of diligence); utilize traditional valuation methodologies to start to triangulate value; and prepare standard credit and business analysis; and (2) full due diligence and structuring (including, deep private equity style underwriting including analysis of unit level economics, cost and growth drivers, customer and supplier dynamics, company position and competitive dynamics, cash flow profile and drivers, balance sheet strength, and appropriate third party diligence). Post investment closing, Crestline will pursue a continuous and methodical approach to monitoring and portfolio management.

#### **Lending against pools of private assets or investing in fund restructurings**

Crestline's Fund Liquidity Solutions Group sources, structures and manages bespoke financing and restructuring solutions for mature private equity funds that require additional capital to provide liquidity to their investors or follow on capital to their underlying portfolio companies. Crestline takes a disciplined, focused investment screening and selection process with an emphasis on rigorous fundamental analysis and due diligence. Crestline will also retain, in certain situations, external consultants, advisors and accountants to augment due diligence. The investment process will generally be segmented into (1) screening; (2) preliminary analysis (including, identifying key risk factors, loan repayment drivers and core areas of diligence; (3) further analysis utilizing traditional valuation methodologies to start to triangulate value; and prepare standard credit and business analysis; deep private equity style underwriting including analysis of unit level economics, cost and growth drivers, customer and supplier dynamics, company position and competitive dynamics, cash flow profile and drivers, balance sheet strength, and appropriate third party diligence; (4) documentation and closing and (5) ongoing monitoring and portfolio management. Post investment closing, Crestline takes a continuous and methodical approach to monitoring and portfolio

management that may include participating on the boards of a restructured fund and/or on the boards of selected underlying companies.

### **Equity long/short investments**

Fund clients using the equity long/short strategy invest utilizing a diversified, multi portfolio manager approach. The objective is to generate returns substantially in excess of the risk-free rate from stock selection while maintaining low net exposure and low correlation to the direction of the stock market. Crestline seeks to accomplish this objective primarily through the selection of experienced portfolio managers who generally use a fundamental approach to stock selection investing in undervalued stocks and shorting overvalued stocks within a sector. Crestline utilizes quantitative tools and analysis in evaluating portfolio managers, allocating capital among the portfolio managers and managing portfolio risks.

Crestline identifies portfolio managers for the segregated portfolio investment program through a disciplined, ongoing process that emphasizes experience, and Crestline generally seeks portfolio managers with multiple years of portfolio management experience that can be verified. Attractive characteristics for portfolio managers include a disciplined research process and sound portfolio construction that emphasizes alpha generation over market directionality. Reference checks are conducted on all portfolio managers prior to joining through conversations with former employers and colleagues, industry peers and service providers with an emphasis on overall integrity. Crestline values having high quality, transparent relationships with its portfolio managers. Crestline seeks to aggregate portfolio managers with strong risk adjusted performance and emphasize finding uncorrelated return streams. Historical performance is evaluated with an emphasis on daily analysis and such performance is viewed on a standalone basis as well as by its potential benefit to the overall fund. Historical, position-level portfolio exposure and attribution data are analyzed to better understand returns relative to exposures, potential factor biases and whether the portfolio manager would be expected to be additive or duplicative to a segregated portfolio.

The portfolio managers, including external third-party sub-advisers and internal Crestline employees, may engage in a wide range of trading strategies, including, without limitation, investing in debt and equity securities, options, futures, forward contracts, currencies, convertible securities and derivatives and may use aggressive investment techniques for investment or hedging purposes, including for example, leverage, short sales and options. The amount of leverage used will vary from time to time and may be achieved through, among other methods, purchasing financial instruments on margin and through other forms of direct and indirect borrowings, as well as by investing in derivative instruments that are inherently leveraged, such as options, futures, swaps and other derivatives.

### **Risk management**

There are three key objectives of the risk management process: 1) staying neutral with respect to market direction; 2) limiting drawdowns, and 3) achieving the fund's volatility target. In order to achieve these objectives, Crestline monitors certain risk measures for the overall segregated portfolio and for each portfolio manager, including portfolio exposure, diversification and portfolio manager and overall stop-loss levels. Risk mitigation factors of the strategy include low factor exposure; liquidity and ability to execute on the sub-portfolio/portfolio stop losses; portfolio diversification across trading styles, sectors, single issuers; limits on leverage and directionality; ongoing dialogue with portfolio managers that gives them a different perspective on the risks in their portfolios; ability to direct portfolio managers to reduce undesired

exposure or hedge on a portfolio level and legal structure of our portfolio that prevents cross-contamination amongst sub-portfolios.

#### Ongoing monitoring

Crestline utilizes a combination of proprietary and third-party tools and systems on a daily basis to track factor exposures, measure various risk metrics, analyze portfolio exposure and performance across various dimensions and perform return-based analysis. Proprietary systems are used to monitor compliance with established guidelines, track offset/overlap across sub-portfolios and monitor stop-loss trigger levels.

#### **Portfolio Manager Investments**

With respect to the legacy diversified hedge fund program structured as funds of funds, the investment funds or accounts focused on this investment strategy are by their own terms in the wind-down process.

#### **Beta Overlay**

Crestline also has a “beta” solutions business that customizes portfolio overlay and hedging solutions for institutional investors according to the governing documents of the relevant fund client or investor. A “beta” overlay involves investing a notional amount via a derivative contract with the objective of earning the return on a benchmark index or customized basket of securities. Crestline will periodically rebalance the account and the derivative contract exposures at pre-determined rebalancing points, or as required by the relevant agreements. Crestline also employs derivatives to manage or eliminate an investor or fund client’s foreign exposure to risk factors such as currency risk or interest rate risk. To support these overlay and hedging programs, Crestline performs daily monitoring and risk management functions and provides liquidity and collateral management services.

#### **Secondary Market Transactions**

Historically, certain fund clients acquired investments in underlying private funds managed by portfolio managers via the secondary market. The investment funds or accounts focused on this passive investment strategy are by their own terms in the wind-down process. Crestline is still an active participant in the secondary markets focusing on niche strategies such as portfolio financing, fund restructurings and direct secondaries.

### **Risks**

Investing in securities involves a high risk of loss that clients should be prepared to bear. Crestline’s investment strategies entail substantial risks and it cannot assure investors in fund clients that the fund clients will achieve their investment objectives. Material risks are set forth in the governing documents of each fund client and include those set forth below.

Risks associated with Crestline’s opportunistic investment strategies include:

- **Contingent Liabilities.** From time to time, the opportunistic fund client may incur contingent liabilities in connection with an investment, and there can be no assurance the fund clients will



adequately reserve for contingent liabilities or that such liabilities will not have an adverse effect on the funds.

- **Debt Securities and Private Debt Instruments.** Investments in debt are subject to the ability of the issuer or the borrower to meet principal and interest payments on the obligation and may be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer or the borrower and the general market conditions. In addition, private debt instruments have significant liquidity risks and market value risks since they are not generally traded in organized exchange markets but are traded by banks and other institutional investors. See below for additional risks related to investments in the Specialty Lending fund section. Those same risks apply to opportunistic investments of the same nature.
- **Bank Loans.** Investments generally will be in the form of loan participations and assignments of portions of such loans. The loan participation interests in which a fund client invests may not be rated by any nationally recognized rating service. Participations and assignments are subject to a number of risks, including credit risk, interest rate risk, liquidity risk and the risks of being a lender. Such investments are subject to unique risks, including, without limitation: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; and (iii) environmental liabilities that may arise with respect to collateral securing the obligations.
- **Second Lien Loans.** Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. Such loans are subject to inter-creditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy, which can materially affect recoveries. Variation in key inter-creditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products.
- **Debtor-in-Possession ("DIP") Loans.** Debtor-in-possession or DIP loans are most often revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. It is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.
- **High Yield Debt.** High Yield Debt securities are generally not exchange-traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments.
- **Convertible Securities.** Convertible securities are bonds, debentures, notes, preferred stock or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or

formula and entitle the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock.

- **Non-Performing Debt.** It is anticipated that certain debt instruments purchased by the fund clients will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such investments.
- **Bankruptcy Risks.** Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. Generally, the duration of a bankruptcy case can only be roughly estimated. The debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. Fund clients may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.
- **Equitable Subordination.** If a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors, or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). Fund clients do not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of debt obligations and the fund clients' focus on "active management" of their investments, the fund clients may be subject to claims from creditors of an obligor that debt obligations of such obligor that are held by the fund clients should be equitably subordinated.
- **Residential Mortgage Loans.** Residential mortgage loans are secured by single-family residential property and are subject to risks of delinquency and foreclosure and risks of loss.

Fund clients will hold or be exposed to non-prime or sub-prime residential mortgage loans (which are subject to higher delinquency, foreclosure and loss rates than prime residential mortgage loans), which could result in higher losses. Non-prime and sub-prime residential mortgage loans are made to borrowers who have poor or limited credit histories and, as a result, do not qualify for traditional mortgage products. Because of the poor, or lack of, credit history, non-prime and sub-prime borrowers have materially higher rates of delinquency, foreclosure and loss compared to prime credit quality borrowers.

- **Commercial Mortgage Loans.** Commercial mortgage loans are generally secured by multi-family or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with residential mortgage loans that are secured by single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property is dependent primarily upon the successful operation of such property. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. A commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. The liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses.
- **Defaults and Foreclosures on Mortgage Loans.** In the event of any default under a loan directly held by a fund client or a loan underlying a security held by a fund client, they will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the loan, which could have a material adverse effect on the fund clients' cash flow from operations. Other non-performing loans may require workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the original principal amount of such loans. Further, even if a restructuring were successfully accomplished, a risk exists that upon maturity of such loans, replacement financing will not be available and such loans may not be repaid. The foreclosure process can be expensive and lengthy (which could have a substantial negative effect on a fund client's anticipated return on the foreclosed mortgage loan), and may be adversely affected by the operation of state law governing the foreclosure process as well as other creditor's rights provided in the governing loan instruments.
- **Governmental Actions Affecting Mortgage Foreclosures.** The federal government, state governments, consumer advocacy groups and others continue to urge mortgage servicers to be aggressive in modifying mortgage loans to avoid foreclosure. In addition, numerous laws, regulations and rules have been proposed recently by federal, state and local governmental authorities that, if enacted or adopted, could delay foreclosure, reduce or delay payments by homeowners, forgive debt, and increase prepayments due to the availability of government-sponsored refinancing initiatives. Fund clients may have a substantial amount of capital invested in residential mortgage loans and could be adversely affected by such actions.
- **Predatory and Other Lending Laws.** Fund clients may be subject to liability for potential violations of predatory and other lending laws, which could adversely impact their results of

operations, financial conditions and business. Failure of residential mortgage loan originators or servicers to comply with anti-predatory lending laws, to the extent any of their residential mortgage loans become part of a fund client's mortgage-related assets, could subject it, as assignees or purchasers of the related residential mortgage loans, to monetary penalties and could result in the borrowers attempting to rescind the affected residential mortgage loans. If the loans are found to have been originated in violation of predatory or abusive lending laws, and a fund client has no rights to indemnification or the sellers are unable to meet their indemnification obligations, the fund client could incur losses, which could adversely impact the fund client's results of operations, financial conditions and business.

- **Changes in Prepayment Rates.** Changes in prepayment rates could reduce the value of mortgage loans directly held by a fund client or underlying an investment of a fund client.
- **Higher Risk of Loss on Loans Secured by Non-Owner Occupied Properties.** Certain mortgage loans may be secured by residential properties where the occupant is not the owner. These mortgage loans may present a greater risk of loss because these borrowers may be more likely to default on a mortgage loan secured by non-owner-occupied property than a mortgage loan secured by a primary residence of a borrower.
- **Pools of Whole Loans.** In connection with the acquisition of whole loans, a fund client may be required to purchase other types of mortgage assets as part of an available pool of mortgage assets in order to acquire the desired whole loans. These other mortgage assets may include mortgage assets that subject the fund client to additional risks. Acquisition of less desirable mortgage assets may impair the performance of a fund client and reduce returns to investors.
- **Consumer Loans.** Fund clients expect to hold or (through its investments in asset-backed securities) be exposed to other consumer loans, including credit card receivables, automobile loans, or student loans. These consumer loans are subject to risks of prepayment, delinquency and default similar to those present in mortgage loans. Consumer loans may be backed by collateral (as in automobile loans) or they may be unsecured, exposing the fund client to default risk as an unsecured creditor of an individual consumer borrower.
- **Borrower Fraud.** Of paramount concern in originating or holding loans is the possibility of material misrepresentation or omission on the part of borrowers. Fund clients or their affiliates will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable but cannot guarantee such accuracy or completeness. In addition, the quality of a fund client's investments in non-performing loans, or in mortgage-backed securities or asset-backed securities is subject to the quality of the underwriting of the originators of such investments, the ability of the sponsors of such investments to screen for such issues, and the accuracy of representations made by the underlying borrowers.
- **Effect of Changes in Interest Rates on Investments in Mortgage Loans.** A substantial portion of a fund client's investments may be in mortgage loans. Most mortgage loans, especially fixed rate mortgage loans, decline in value when long-term interest rates increase. In the case of adjustable rate mortgages, increases in interest rates can lead to increases in delinquencies and defaults as borrowers become less able to make their mortgage payments following payment resets. Declines in market value, if not offset by any corresponding gains on hedging instruments, may ultimately reduce earnings or result in losses to a fund client,

which may negatively affect cash available for distribution to a fund client. A fund client could also realize immediate losses if the securities were sold.

- **Intellectual Property and Life Sciences Sector Investments.** Fund clients may invest in intellectual property (“IP”), pharmaceutical or health care related assets, including those pertaining to pharmaceutical products and franchise rights. Investment in such assets involves a high degree of business, financial, technology, regulatory and litigation risk that can result in substantial losses. Some of these risks relate to the assets themselves, while others relate to the products utilizing these assets and to the companies manufacturing or marketing these products. To the extent a related product (e.g., a new pharmaceutical product) has not yet received all applicable governmental approvals, there is a risk that the product will not obtain such approvals or, if obtained, may be revoked due to previously unknown or undisclosed side effects or complications. Further, government policies and regulations applicable to such assets may change in ways that adversely affect the duration and/or scope of IP protections, or adversely affect the companies’ or related products’ marketability. A fund client may also invest in companies or investment vehicles which own valuable IP, pharmaceutical or health care related assets. The companies which own such assets and/or manufacture and market the products related to such assets may have limited operating histories or insufficient management or marketing personnel. Certain of these companies and a fund client may become involved in lawsuits with respect to the assets the fund client owns and the exploitation of such assets acquired by a fund client may necessitate litigation. Additionally, a fund client may invest in IP rights or companies that own IP rights that are governed by non-U.S. jurisdictions. Non-U.S. jurisdictions may provide significantly less protection than the United States because they may have no IP laws, or if they do have IP laws, such laws may be inadequate or poorly enforced. There is also the risk that a company may not apply for protection in all of the non-U.S. jurisdictions where it does business.
- **Risks of Investments in the Energy Industry** - A fund client’s investments may be in the energy industry and market. The energy markets may be subject to short-term volatility due to a variety of factors, including weather, international political and economic developments, breakdowns in the facilities for the production, storage or transport of energy and energy-related products, acts of terrorism, changes in government regulation and sudden changes in fuel prices. The fund client may be affected to a greater extent by any of these developments than would be the case with a more diversified portfolio of investments.
- **Oil and Gas Risks** - Fund clients may make investments in the oil and gas industry, which investments are subject to certain risks, including, without limitation, environmental risks, risks associated with increased or new legislation, particularly with respect to hydraulic fracturing, the risk of substantial loss of capital due to cost overruns, delays, dry holes, fires, explosions and other disasters associated with oil and gas production (including production through hydraulic fracturing), risks associated with relying on third parties to develop and operate the projects in which the fund client invests, and the risk of substantial fluctuations in commodity prices.
- **Volatility of Oil and Gas Prices** - The performance of certain investments of the fund client will be substantially dependent upon prevailing prices of certain natural resources, including oil and natural gas. Energy related investments may have significant shortfalls in projected cash

flow if prices decline from levels projected at the time the investment is made. Historically, the energy markets, including oil and natural gas, have been volatile, and such markets are likely to continue to be volatile in the future. Prices for oil and natural gas are subject to wide fluctuation in response to relatively minor changes in supply and demand, market uncertainty and a variety of additional factors that are beyond the control of the fund client. The factors include worldwide supplies, the extent of domestic production, the level of consumer product demand, the refining capacity of oil purchasers, weather conditions, domestic and foreign governmental regulations (including taxation and price controls), the price and availability of alternative fuels, political instability or armed conflicts in oil and natural gas producing regions, actions of the Organization of Petroleum Exporting Countries, the foreign supply of natural resources, the price of foreign imports and domestic and foreign economic conditions that determine levels of industrial production. If prices fall and remain at lows for an extended period of time, there could be an adverse impact on the performance of the fund clients and its investments, and this impact may be material.

- **Potential Regulatory Changes** – The most current version of the financial reform bill would reduce the capital requirements and regulatory burdens on banks. If that bill were to pass and be signed into law, it could increase competition for loan opportunities from traditional banks and potentially reduce profitability. Additionally, the “blueprint” for tax reform includes provisions that would reduce (or potentially eliminate) the deductibility of interest. If tax reform legislation were to pass in a form that reduces the deductibility of interest, the demand for borrowings would be negatively impacted.

Risks associated with Specialty Lending include:

- **No Assurance of Investment Return** – Specialty Lending’s task of identifying and evaluating investment opportunities, managing such investments and realizing a significant return for investors is difficult. There is no assurance the Specialty Lending strategy will be able to invest its capital on attractive terms or generate returns for its investors. There may be little or no near-term cash flow available to the investors of the Specialty Lending funds and there can be no assurance the Specialty Lending funds will make any distribution to their partners. There may be partial or complete maturities, sales, transfers or other dispositions of investments that may not result in a return of capital or the realization of gains for a number of years after an investment is made.
- **Reliance on the Board of Directors and on Crestline** – The Crestline Specialty Lending funds’ general partner entities have an independent board of directors (the “Board”) which is tasked with overseeing and executing on a broad variety of matters for the entities. The success of the Specialty Lending funds will depend upon their Board who will have overall supervision and control the business affairs of the Specialty Lending funds. Limited partners are not entitled to participate in the management of the Specialty Lending fund. The Board, however, will be obligated to devote only such time to the Specialty Lending funds’ affairs as may be reasonably necessary to conduct their business.
- **Difficulty of Locating Suitable Investments** – The success of the Specialty Lending strategy will depend, in part, on the ability to originate loans on advantageous terms. There can be no

assurance the Specialty Lending funds will be able to identify a sufficient number of suitable investment opportunities to enable them to invest all of their committed capital in opportunities that satisfy their investment objectives or that such investment opportunities will lead to completed investments by the Specialty Lending funds. The activity of identifying, completing and realizing an attractive investment opportunity is highly competitive, requires a substantial amount of upfront work and may involve a high degree of uncertainty. The Specialty Lending funds compete for the origination and acquisition of loans with many other investors, some of which will have greater resources than Specialty Lending funds. Such competitors may include other private investment funds as well as financial institutions and other institutional investors. In addition, the availability of investment opportunities generally may be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. Therefore, identification of attractive investment opportunities is difficult and involves a high degree of uncertainty, and competition for such opportunities may become more intense. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of opportunities available to the Specialty Lending funds and adversely affecting the terms upon which their investments can be made. Increased competition for, or a diminishment in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

- **Illiquidity of Interests** – No market for the interests in the Specialty Lending funds can be expected to develop and it may be difficult or impossible to transfer any such interests, even in an emergency. Interests may not be transferred without the consent of the Board, which may withhold its consent in its sole discretion. Because of such severe restrictions on withdrawals and transfers, an investment in the Specialty Lending funds is a relatively illiquid investment and involves a high degree of risk.
- **Projections** - Specialty Lending funds will make investments relying upon projections developed by Crestline, a prospective borrower or other third-party source concerning such company's future performance and cash flow. Projections are inherently subject to uncertainty and factors beyond the control of Crestline, the borrower or such other sources. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of a borrower to repay our indebtedness or realize projected values.
- **Asset Valuations** – A significant portion of the Specialty Lending funds' investments are not in readily marketable securities for which prices are available from third parties. Independent quotations for such positions are not necessarily be available, and, where available, will not necessarily provide a reliable indication of current value. For an investment to constitute a liquid asset, market quotations of its value must be available from two independent market makers. Such quotations will not assure the investment is as liquid as investments in the secondary market for more traditional investments, such as stocks and bonds. As a result, if the Specialty Lending funds are forced to sell investments prematurely, they may not be able to realize the potential underlying value of such investments, and, in some cases, may have to sell such investments at a loss.
- **Secured Loans** - The Specialty Lending funds may be exposed to losses resulting from default and enforcement of security. Therefore, the value of the underlying collateral, the

creditworthiness of the borrower and the priority of the lien may each be of great importance. The Specialty Lending funds cannot guarantee the adequacy of the protection of the its interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, Specialty Lending cannot be certain that claims may not be asserted that might interfere with enforcement of its rights. In the event of enforcement of the security for a loan in certain jurisdictions, Specialty Lending may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the relevant loan, resulting in a loss to Specialty Lending. Any costs or delays involved in the enforcement of the security for a loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

- **Debt Securities** - Debt securities are subject to two primary (but not exclusive) types of risks: credit risk and interest rate risk. These risks can affect a security's price volatility to varying degrees, depending upon the nature of the instrument. In addition, the depth and liquidity of the market for an individual or class of debt security can also affect its price and, hence, the asset value of Specialty Lending.
- **Credit Risk** - Credit risk refers to the likelihood that an issuer will default in the payment of principal or interest on a security. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, lack of or inadequacy of collateral or credit enhancements for a fixed income security may affect its credit risk. Credit risk of a security may change over time, and securities that are rated by ratings agencies are often reviewed and may be subject to downgrade. Lower quality securities may be more susceptible to real or perceived adverse economic and individual corporate developments than would investment grade debt securities. Moreover, the secondary trading market for lower quality securities may be less liquid than the market for investment grade securities. This potential lack of liquidity may make it more difficult for Specialty Lending to accurately value certain portfolio securities.
- **Interest Rate Risk** - Interest rate risk refers to the change in the value of debt instruments associated with changes in interest rates. Interest rate changes may affect the value of a debt security directly (especially in the case of fixed rate securities) and indirectly (especially in the case of adjustable rate securities). In general, an increase in interest rates will negatively impact the value of fixed rate securities and falling interest rates will have a positive effect on value. The degree to which a security's price will change as a result of changes in interest rates is measured by its "duration." Generally, securities with longer maturities have a greater duration and thus are subject to greater price volatility from changes in interest rates. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other things).
- **Private Debt Investments** - Specialty Lending anticipates making private debt investments, including investing in private debt securities and private debt instruments, of unrated or non-investment grade companies such as leveraged loans, senior secured bank debt, junior loans, subordinated loans, and syndicated bridge commitments. Such private debt investments are subject to the ability of the issuer or the borrower to meet principal and interest payments on the obligation and are not generally traded in organized exchange markets but are instead traded



banks and other institutional investors. Thus, many of the risk characteristics of private debt investments purchased by the Lending Fund will be similar to those described above.

- **Changes in the Law and Regulatory Environment** – Amendments to banking, lending, tax and other relevant laws and regulations could alter an expected outcome or introduce greater uncertainty regarding the likely outcome of an investment situation or the availability of investment opportunities.

Risks associated with segregated portfolio investment program include:

- **Limited Operating History** – The funds within the segregated portfolio investment program have a limited operating history.
- **Dependence on Portfolio Managers** – The success of the segregated investment portfolio investment program depends upon Crestline's and the portfolio managers' ability to develop and implement investment strategies that achieve its investment objectives.
- **Compensation Arrangements with the Portfolio Managers** - Portfolio Managers, including Crestline to the extent that segregated portfolios are managed by its employees, may receive compensation based on the performance of their investments, and such compensation arrangements may create an incentive to make investments that are riskier or more speculative than would be the case if such arrangements were not in effect. In addition, because performance-based compensation is calculated on a basis which includes unrealized appreciation of the applicable segregated portfolio's assets, such performance-based compensation may be greater than if such compensation were based solely on realized gains. Portfolio managers will generally receive an incentive fee from the segregated portfolio that they manage based on the performance of their portfolios. Therefore, it is possible that certain portfolio managers may receive incentive compensation, even though the overall portfolio, as a whole, does not have net capital appreciation or depreciated during the period.
- **Independent Portfolio Managers** - Portfolio Managers, including Crestline to the extent that segregated portfolios are managed by its employees, generally invest wholly independently of one another and may at times hold economically offsetting positions. To the extent that portfolio managers do, in fact, hold offsetting positions, the overall segregated portfolio, considered as a whole, may not achieve any gain or loss despite incurring investment expenses, including, without limitation, performance-based compensation. If the overall segregated portfolio, considered as a whole, is concentrated in a position, as a result of two or more master fund segregated portfolios holding the same positions, the risks associated with such investments will be magnified. In addition, there may often be times when a particular portfolio manager, including Crestline to the extent that segregated portfolios are managed by its employees, may receive performance-based compensation in respect of the applicable segregated portfolio's investments for a period even though the overall portfolio depreciated during such period. Some portfolio managers also may compete with each other from time to time for the same positions in certain markets. Such competition may adversely affect the performance of the segregated portfolios managed by such portfolio managers.
- **Systems and Operational Risks** - The master fund segregated portfolios rely heavily and on a daily basis on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain

securities, to monitor their portfolios and capital, and to generate risk management and other reports that are critical to Crestline's oversight of the segregated portfolios' activities. In addition, Crestline relies upon systems operated by third parties, including prime brokers, the administrator, market counterparties and other service providers, and Crestline may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by Crestline, prime brokers, the administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Also, disruptions in a segregated portfolio's portfolio manager's operations may cause such segregated portfolio to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage.

- **Counterparty Risk** - Each master fund segregated portfolio expects to establish relationships to obtain financing, derivative intermediation and prime brokerage services that will permit it to trade in any variety of markets or asset classes over time. However, there can be no assurance that the segregated portfolios will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit the master fund segregated portfolios' trading activities, create losses, preclude the segregated portfolios from engaging in certain transactions or prevent the master fund segregated portfolios from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the master fund segregated portfolios' business due to reliance on such counterparties. The master fund segregated portfolios may effect transactions in the "over-the-counter" or "OTC" derivatives markets whereby a segregated portfolio enters into a contract directly with dealer counterparties and thus may expose such segregated portfolio to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. In addition, a segregated portfolio may have a concentrated risk in a particular counterparty, which may mean that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if such segregated portfolio had entered into contracts with multiple counterparties. Certain OTC derivative contracts may require that a segregated portfolio post collateral. There is a risk that a counterparty could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of a segregated portfolio's securities from such counterparty or the payment of claims therefor may be significantly delayed and a segregated portfolio may recover substantially less than the full value of the securities entrusted to such counterparty. In addition, there are a number of proposed rules that, if they were to go into effect, may impact the laws that apply to insolvency proceeding and may impact whether a segregated portfolio may terminate its agreement with an insolvent counterparty. Collateral that a segregated portfolio posts to its counterparties that is not segregated with a third-party custodian may not have the benefit of customer-protected "segregation" of such funds. If a counterparty were to become insolvent, a segregated portfolio may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return.

- **Central Clearing** - In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives are underway to require certain derivatives to be cleared through a clearinghouse. In the United States, clearing requirements were part of the Dodd-Frank Act. As products become more standardized in order to be cleared, standardized derivatives may mean that master fund segregated portfolios may not be able to hedge their risks or express an investment view as well as they would using customizable derivatives available in the over-the-counter markets. Also, each clearinghouse only covers a limited range of products and a segregated portfolio may have to spread its derivative portfolio across multiple clearinghouses, which in turn reduces the benefits of netting that derivatives users rely on to mitigate counterparty risk. Although standardized clearing for derivatives is intended to reduce risk, it does not eliminate risk. Rather, standardized clearing transfers risk of default from the OTC derivatives dealer to the central clearinghouse, which may increase systemic risk, potentially more so than a failure by an OTC derivatives counterparty. Because these clearinghouses are still developing, and the related bankruptcy process is untested, it is difficult to speculate what the actual risks would be to a segregated portfolio related to the default of a clearinghouse. Additionally, applicable regulations may require a segregated portfolio to make public information regarding its swaps volume, position size and/or trades, which could detrimentally impact such segregated portfolio's ability to achieve its investment objectives.
- **Volatility Risk** - Some of the master fund segregated portfolios' investment opportunities may involve the purchase and sale of relatively volatile securities and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such securities and/or markets can adversely affect the value of investments held by such segregated portfolios.
- **Significant Positions in Securities; Regulatory Requirements** - If a master fund segregated portfolio acquires a significant stake in certain issuers of securities and such stake exceeds certain percentage or value limits, such segregated portfolio may be subject to regulation and regulatory oversight that may impose notification and filing requirements or other administrative burdens on such segregated portfolio and its portfolio manager. Any such requirements may impose additional costs on such segregated portfolio and may delay the acquisition or disposition of the securities or such segregated portfolio's ability to respond in a timely manner to changes in the markets with respect to such securities. In addition, "position limits" may be imposed by various regulators that may limit a segregated portfolio's ability to effect desired trades. To avoid exceeding any position limits, such segregated portfolio might have to forego or modify certain of its contemplated trades.
- **Risks Related to Currency Hedging** - Certain segregated portfolios of the Offshore fund client will offer non-U.S. dollar denominated classes of shares. In connection with such offerings, Crestline may (but is not required to) engage in currency hedging activities. All profits and losses generated by such hedging activity are allocated to the respective Share class. Currency hedging activities will generally require the use of a portion of the segregated portfolio's assets for margin or settlement payments or other purposes. For example, the segregated portfolio may from time to time be required to make margin, settlement or other payments, including intra-month, in connection with the use of certain hedging instruments. Counterparties to any currency hedging activities may demand payments on short notice,

including intra-day. As a result, the applicable segregated portfolios may liquidate assets sooner than they otherwise would have in order to have available cash to meet current or future margin calls, settlement or other payments, or for other purposes. Moreover, due to volatility in the currency markets and changing market circumstances, such segregated portfolios may not be able to accurately predict future margin requirements, which may result in holding excess or insufficient cash and liquid securities for such purposes. Where the segregated portfolios do not have cash or assets available for such purposes, they may be required to dispose of assets at disadvantageous prices or the applicable segregated portfolios might fail to comply with certain of their contractual obligations. Such actions could adversely impact the portfolio composition, leverage ratios, gross exposures or other aspects of one or more master fund segregated portfolios.

- **Hedging Transactions** - A master fund segregated portfolio may utilize securities for risk management purposes in order to: (i) protect against possible changes in the market value of its investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect unrealized gains in the values of its investments; (iii) facilitate the sale of any securities; (iv) enhance or preserve returns, spreads or gains on any security in its portfolio; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any such securities in its portfolio; (vii) protect against any increase in the price of any securities the portfolio manager anticipates purchasing at a later date; or (viii) act for any other reason that the applicable portfolio manager deems appropriate. Portfolio managers will not be required to hedge any particular risk in connection with particular transactions or their portfolios generally. A portfolio manager may be unable to anticipate the occurrence of a particular risk and, therefore, may be unable to attempt to hedge against it. While a segregated portfolio may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for such segregated portfolio than if it had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that cannot be hedged.

Clients participating in fund liquidity solutions transactions may be exposed to certain risks to which clients that pursue a liquidation alternative would not be exposed. Such risks include:

- **Lack of Operating History** - The funds are newly organized entities that have limited operating history or track record as independent funds.
- **Reinvestment of Distributable Capital** – Crestline generally uses cash and other available assets to fund further investments into previously underperforming assets in ways it perceives will maximize value. If the underperforming assets do not improve in value despite Crestline's efforts, the losses of the portfolio may increase.
- **Prolonged Investment Period** – The investment period for the illiquid investments in which Crestline specializes may be prolonged, during which business, economic and regulatory environment relating to a particular investment may substantially and adversely change and negatively impact the value of, or ability to liquidate, an asset.
- **Sources of Capital** – Other sources of capital, whether in debt or equity, which may be necessary to grow or restructure a portfolio company may not be available.

- **Dilutive Effect** – Any prolonged continuation of the relevant portfolio company or fund client absent liquidation may require additional debt or equity capital that may be dilutive to preexisting investors but subject to any equity preemptive rights of the preexisting investors,
- **Other General Business Risks** – Crestline clients will be subject related to continued operations and may not be able to achieve liquidity for their investments despite Crestline’s efforts.
- **Repayment and Redemption Risk** – Crestline may be dependent on the ability of a private equity or private investment fund or portfolio company to obtain replacement financing or sell its collateral to repay its loans or redeem preferred equity held by fund client. Loans are also subject to risks of borrower defaults, bankruptcies, fraud, losses, and special hazard losses that are not covered by standard hazard insurance, and in the event of any default the fund client bears the risk of loss of principal and non-payment of interest and fees. If a private equity or private investment fund issuer is unable to redeem the fund client’s preferred equity interest therein when it is required to do so under its governing documents due to bankruptcy or other inability to pay, the fund client bears the risk of loss of its entire investment in the issuer fund.
- **Loans to Private Equity and Private Investment Funds.** Loan origination to private equity and other private investment funds generally involves the types of risks that are inherent in debt origination or investment in debt securities in general, except that such loans may involve risks that (i) the valuation of underlying collateral may be more difficult to assess; (ii) investors in the relevant fund may resist or contest such loans; (iii) the investment manager and the general partner of a relevant fund may be removed, subjecting a borrower fund to potential management instability; (iv) such loans may be structurally subordinated to debt already in existence, or that may exist in the future, at the underlying portfolio company level and/or may otherwise be subordinated to current or future senior debt at the fund level. In addition, to the extent that any debt to a fund is secured by uncalled capital commitments, there is a risk of default.
- **Loans to Underlying Portfolio Companies.** The profitability of this type of loan depends on the ability of the borrower portfolio company to meet principal and interest payments on the loan. There can be no assurance that a portfolio company will generate sufficient cash necessary to service its debt obligations, and, in the event that the relevant private equity or private investment fund does not satisfy its guaranty or the guaranty is invalidated, the fund client may suffer a partial or total loss of invested capital.
- **Investments in Private Equity and Private Investment Funds and Their Portfolio Companies.** Such Investments may involve risks not present in direct project investments, including, for example, the possibility that such private equity or private investment funds, as applicable, or their portfolio companies might become bankrupt, or may at any time have economic or business interests or goals that are divergent from or contrary to those of the fund client, that such private equity or private investment funds or portfolio companies may be in a position to take action contrary to the Portfolio Financing Fund’s objectives, or that the investments of a private equity or private investment fund may be concentrated in a few portfolio companies. In addition, to the extent that the fund client or Crestline on its behalf manages a private equity or private investment fund or portfolio company together with the

current management for such fund or company, the fund client may be liable for actions of the current management.

- **Secured Loans.** Crestline funds may be exposed to losses resulting from default and enforcement of security. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien may each be of great importance.
- **Subordinated Loans or Securities.** Client funds may originate loans that are subordinated or may be subordinated in right of payment and ranked junior to other securities issued by, or loans made to obligors. If a private equity or private investment fund borrower or portfolio company borrower experiences financial difficulty, holders of its more senior securities will be entitled to payments in priority to fund clients.
- **Ability to Realize on Guaranties.** To the extent that a fund client provides financing directly to one or more of its underlying portfolio companies, a private equity or private investment fund may provide, and execute in favor of the client fund, a guaranty of payment. The guaranties provided by private equity or private investment funds, as applicable, in such situations may not be enforceable and, under specific circumstances, federal and state courts could void the guaranties under applicable fraudulent conveyance or other similar laws and require the client fund to return payments received from the private equity or private investment funds, respectively, in such capacity. In addition, the guarantors may lack sufficient assets to satisfy the guaranties.
- **Fraud.** Investing in loans or preferred equity involves the possibility of material misrepresentation or omission on the part of the borrower or issuer. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loan or assets of an issuer of preferred equity.
- **Bankruptcy Risks.** Client funds may participate in restructurings that involve nonperforming, underperforming or other troubled assets of private equity or private investment funds that are experiencing or are expected to experience severe financial difficulties, which may never be overcome. Such investments could, in certain circumstances, subject the fund client to certain additional potential risks, including the fact that such private equity or private investment funds, as applicable, could enter into bankruptcy. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the client fund. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor.
- **Equitable Subordination.** Crestline does not intend for its client funds to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of debt obligations and the fund client's focus on "active management" of its Investments, it may be subject to claims from creditors of an obligor that debt obligations of such obligor that are held by the client fund should be equitably subordinated.
- **Lack of Secondary Markets for Loans and Preferred Equity Interests.** In general, the secondary trading markets for loans to, and preferred equity interests in, private equity and

private investment funds (if any) are not well developed. Such lack of active trading markets may make it difficult to value such loans and preferred equity interests. Illiquidity and adverse market conditions may mean that the fund client may not be able to sell the loans it previously made to, or preferred equity interests it previously acquired in, private equity and private investment funds quickly or at a fair price.

- **Reliance on Management of Private Equity and Private Investment Funds and Underlying Portfolio Companies.** Although Crestline will monitor the performance of each private equity and private investment fund in which the fund client invests and each of their underlying portfolio companies, unless otherwise provided in the transactional documents in connection with the fund client's investment therein, the management of such private equity and private investment funds will be responsible for their operation on a day-to-day basis and will generally have sole and absolute discretion in structuring, negotiating and purchasing, financing, monitoring and eventually divesting investments made by such private equity and private investment funds and their underlying portfolio companies.
- **Risk of Underlying Portfolio Companies Being Limited in Their Ability to Make Distributions to Private Equity and Private Investment Funds.** In a number of cases, underlying portfolio companies of a private equity or private investment fund will have debt obligations and possibly securities that are senior to those held by such private equity or private investment fund, respectively. In addition, debt covenants and terms of senior securities may restrict or prohibit an underlying portfolio company from making distributions to the private equity or private investment fund. As a result, such private equity or private investment fund may not have sufficient resources to meet debt service and payment obligations under debt issued to the client fund or to fund required redemptions of preferred equity held by the fund client.
- **Private Equity and Private Investment Fund Governance Rights.** Although the fund client may negotiate certain governance rights with respect to the private equity and private investment funds in which it invests, such as, for example, the right to appoint a representative to any limited partner advisory committees of such private equity and private investment funds, there can be no assurance that Crestline will be successful in such negotiation or, if so, will be able to exercise any amount of influence through an advisory committee position over any private equity or private investment fund or underlying portfolio company, or that determinations or recommendations advanced on behalf of the fund client will prevail. Furthermore, if the fund client has the ability to appoint a member to a private equity or private investment fund's limited partner advisory committee, the client fund may be subjected to an increased risk of liability at the private equity or private investment fund or underlying portfolio company level, which may result in potential indemnification payments by the fund client, thereby decreasing the returns to the Limited Partners.
- **Access to Information from Private Equity and Private Investment Funds.** The General Partner and/or the Investment Manager may not always receive full information from the private equity or private investment funds in which the fund client invests because certain of this information may be considered proprietary by a private equity or private investment fund.

Risks associated with fund clients that invest with portfolio managers, as opposed to directly in securities include:

- **Dependence on Portfolio Managers** – Certain of Crestline’s fund clients’ assets are invested through portfolio managers either in underlying portfolio funds or as sub-advisers to segregated portfolios. The success of the fund clients depends upon Crestline’s and the portfolio managers’ ability to develop and implement investment strategies that achieve the fund clients’ investment objectives.
- **Liquidity** – Some investments may lack liquidity due to the illiquid nature of the investment (such as private debt) as well as due to underlying private funds having the right to suspend payment of withdrawals under certain circumstances, as well as fund clients being subject to lock-ups, gates and redemption fees. In addition, certain underlying private funds invest in or hold illiquid securities.
- **General Economic Conditions** – General economic conditions may affect the level and volatility of interest rates and the extent and timing of investor participation in the markets, which could lead to unexpected volatility or illiquidity.
- **Leverage** – Some underlying private funds and some fund clients employ leverage (direct or notional), which may increase the risk of loss.
- **Non-U.S. Investments** – Some underlying private funds invest in securities, commodities and other financial instruments of non-U.S. corporations and governments that may be subject to political and economic instability.
- **Currency** – Some investments may be made in currencies other than U.S. dollars. Crestline may, depending on the circumstances, hedge a fund client’s exposure to currency fluctuations between the U.S. dollar and other currencies, which may independently cause losses.
- **Special Situations** – Certain underlying private funds as well as certain Crestline fund clients may invest in companies involved in (or the target of) acquisition attempts or tender offers, or in companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any of the above types of special situations, the investment will be subject to the risk that the contemplated transaction either will be unsuccessful, take considerable time or result in a distribution of cash or a new security, the value of which could be less than the purchase price to the underlying private fund or fund clients of the security or other financial instrument in respect of which the distribution is received.
- **Equity Securities** – The investment portfolios of underlying private funds may include positions in shares of common stock and preferred stock and in convertible securities. The underlying private funds also may invest in depositary receipts relating to non-U.S. securities. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete, industry market conditions and general economic environments.
- **New Issues** – The purchase of securities in an initial public offering involves unique risks due to the limited number of securities available for trading, lack of market familiarity with the issuer and unseasoned trading, which may result in increased price volatility. New issuer companies may be recently organized companies or in new industries that are evolving and are not understood by investors. Finally, the decreased market capitalization of a recently public



company may result in Crestline's fund clients' trading materially impacting the available price of securities in the marketplace.

- **Private Investments in Startup Companies** – Investments in small capitalization and startup stocks involve greater risk than is customarily associated with larger, more established companies. However, smaller companies often have limited product lines, markets, or financial resources, and they may be dependent upon one-person management. These securities may have limited marketability and may be subject to more abrupt or erratic movements in price than securities of larger companies or the market averages in general.
- **Restricted Securities.** Certain of Crestline's clients may purchase equity, convertible securities, and fixed income obligations the disposition of which may be restricted under the Securities Act of 1933. Whether or not so restricted, the market to resell such securities may be illiquid. Therefore, such investments may be required to be held for a lengthy period of time or, if the client were forced to liquidate its position in such securities, the liquidation may be taken at a substantial discount to the underlying value or result in the entire loss of the value of such investment. In addition, a private transaction may also involve higher transaction costs.
- **Potential Illiquidity of Client Investments** – The market value of Crestline's clients' investments will fluctuate with, among other things, changes in market rates of interest, general economic conditions, economic conditions in particular industries, the condition of financial markets and the financial condition of the issuers of client investments. In addition, the lack of an established, liquid secondary market for some client investments may have an adverse effect on the market value of those client investments and on the client's ability to dispose of them. Partly as a result of the foregoing, as well as general market inefficiencies respecting companies in varying stages of reorganizations and/or recapitalizations, a portfolio valuation for the client may not necessarily be indicative of actual results or amounts to be realized by the client from its investments. Additionally, some client investments may be subject to certain other transfer restrictions that may contribute to illiquidity. Also, client investments constituting a control position will be subject to additional transfer restrictions under Federal securities and other laws by virtue of such control position that will further contribute to illiquidity. Therefore, no assurance can be given that, if the client decides to dispose of a particular investment, it will be able to dispose of such investment at the prevailing market price or at the desired time.
- **Short Sales** – Some underlying private funds may sell securities short. Selling securities short risks losing an amount greater than the proceeds received and, theoretically could result in unlimited losses.
- **Counterparty Creditworthiness** – An underlying private fund may hold assets in one or more accounts maintained for that fund by counterparties, including their prime brokers. There is a risk that any of those counterparties could become insolvent. The insolvency of counterparties will likely impair the operational capabilities or the assets of the underlying fund. The use by underlying private funds of counterparties located in various jurisdictions outside the United States heightens this risk because the laws applicable to those counterparties may have substantial limitations and uncertainties.
- **Operational Risk** – While Crestline's diligence process is designed to discover potential sources of operational risk in a portfolio manager's investment program before its fund clients invest, some sources of operational risk may not be discovered until after investment, especially

when if the portfolio manager misrepresents its investment program, controls and/or returns and attempts to mislead Crestline's diligence process.

- **Headline Risk** – Underlying funds may be subject to rapid redemption requests from their investors due to reports, whether or not correct, of potential losses or regulatory events. Those underlying funds may be forced to redeem their most liquid investments to satisfy those redemption requests. If the fund clients do not redeem their interests in those underlying funds early in the redemption process, their ability to redeem their investment would be adversely impacted due to the potentially decreased liquidity of the relevant underlying fund.
- **Dual Layers of Fees** – While Crestline attempts to identify underlying funds with substantial potential returns, the rate of return of its investments may be reduced by expenses, fees and allocations at the underlying fund and of the respective fund client.
- **Distressed Securities** – An underlying private fund may invest in “below investment grade” securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments, although they may also offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of those issuers.
- **Derivatives** – Derivative instruments, or derivatives, include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Since many derivatives are “leveraged,” and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement may not only result in the loss of the entire investment, but may also expose the investor to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts, and to counterparty risk. The “beta” overlay process relies upon the use of derivatives and the foregoing risk factor is particularly applicable to any “beta” overlay program.
- **Restrictions on Transfers of Secondary Interests** – The secondary investment interests in which certain fund clients invest may be highly illiquid and typically subject the fund clients to significant restrictions on transfer, including a requirement for approval of the transfer by the general partner or the investment manager of the underlying private fund and rights of first refusal in favor of other investors. Completion of the transfer is often time-consuming and relatively difficult, as compared to a transfer of other securities.
- **Investments Longer Than Fund Term** – Client funds may make investments that may not be advantageously disposed of prior to the date the fund client will be wound up and dissolved, either by expiration of the fund client's term or otherwise. The fund client may have to sell, distribute, or otherwise dispose of fund client investments at a disadvantageous time. As a result, the fund client may sell, distribute, or otherwise dispose of fund client investments for a price which is less than the price that could have been obtained if the fund client investments were held for a longer period of time.

- **Activist Strategies** – Activist strategies intrinsically require the fund clients take contentious positions in underlying issuers, which may expose them to risks, especially changes to price due to market reaction. If successful, the director would likely result in limited liquidity.

Other investment techniques that the underlying private funds may employ from time to time can, in certain circumstances, maximize the adverse impact of adverse market conditions or events to which the fund clients may be subject. In addition to the risks associated with Crestline's investment strategies and techniques, fund client investments are subject to other risks, including, but not limited to, regulatory risks and market risks. Investors in Crestline's fund clients should refer to the applicable fund client's governing documents for additional risks and further explanation of the above risks.

#### Material Non-Public Information

By reason of their responsibilities in connection with the discretionary investment advisory services and other investment activities, and notwithstanding procedural safeguards including, without limitation, information barriers and restricted securities lists, personnel of the Investment Manager may acquire confidential or material, non-public information that would limit the ability of one or more of its fund clients to buy and sell certain Investments. Moreover, the Investment Manager may be restricted from initiating transactions in certain securities or selling certain investments, due to its acquisition of confidential or material, non-public information, at a time when the Investment Manager would otherwise take such action.

#### Cyber Security Risk

The information and technology systems of Crestline and its respective third party administrators may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although Crestline has implemented, and the administrators may maintain, various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, Crestline and/or the administrator(s) may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm Crestline's and/or the administrator's reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect their business and financial performance.

#### Coronavirus and Other Global Health Events

Epidemics, pandemics and other widespread public health problems could adversely affect the funds' performance. For example, in late 2019, a novel virus started causing a disease ("COVID-19") with severe acute respiratory syndromes in humans, at times with serious health complications that sometimes result in death. COVID-19 spread globally over the course of weeks, stressing healthcare systems and resulting in financial disruptions to an extent that remains unclear. On March 11, 2020, the World Health Organization

declared the outbreak a pandemic. Many local, state and global governments-imposed restrictions on travel and strict measures of social distancing.

As the potential impact on global markets from COVID-19, or future epidemics, pandemics or other health crises, is impossible to predict, the extent to which any such crisis may negatively affect the performance of any fund client or the duration of any potential business disruption is uncertain. Precautions or restrictions imposed by governmental authorities and public health departments related to this pandemic are expected to result in indeterminate periods of decreased economic activity throughout the U.S. and globally, including reduced or ceased business operations, decline in international trade and shortages of supplies, goods and services. An outbreak such as COVID-19, and the reactions to such an outbreak, are expected to cause uncertainty in the markets and businesses and are generally expected to adversely affect the performance of the U.S. and global economy for multiple reasons including but not limited to market volatility, market and business uncertainty and closures, supply chain and travel interruptions, the need for employees to work at external locations and extensive medical absences among the workforce. As a reaction to such an outbreak, it is possible that governmental fiscal and economic measures will lead to an increase in spending and other forms of financial stimuli, and it is difficult to predict what effect such measures will have on the U.S. and global economies.

The impact that pandemics and other public health events will have on the performance of any fund client is uncertain and will depend on future developments and new information that may emerge regarding the duration and severity of COVID-19 or other health crisis, and the actions taken by authorities and other entities to contain such crisis or treat its impact, all of which are beyond Crestline's control.

#### Discontinuation of LIBOR

The London Interbank Offered Rate ("LIBOR"), which is commonly used as a reference rate within various financial contracts (any such rate, a "Reference Rate"), is scheduled to be phased out by the United Kingdom's Financial Conduct Authority in the year 2021. In anticipation of the end of LIBOR, the United States and other countries are currently working to replace LIBOR with alternative Reference Rates, with the Sterling Overnight Interbank Average Rate and Secured Overnight Financing Rate as likely replacements. As a general matter, the expected discontinuation of LIBOR may significantly impact financial markets; specifically, discontinuation may impact financial contracts to which a fund client is a party. Generally, the transition to alternative Reference Rates may (i) cause the value of a Reference Rate to be uncertain or to be lower or more volatile than it would otherwise be; (ii) result in uncertainty as to the functioning, liquidity or value of certain financial contracts; (iii) involve actions of regulators or rate administrators that adversely affect certain markets or specific financial contracts; and (iv) impact the strategy, products, processes, legal positions and information systems of market participants, including a fund client and its counterparties. With respect to financial contracts to which a fund client is a party, including corporate and municipal bonds and loans, consumer loans, bank loans, floating rate debt, certain asset-backed securities, and interest rate swaps and other derivatives, any such contract that has a maturity that extends beyond 2021 and uses LIBOR as a Reference Rate (other than contracts that include curative fallback language or other curative mechanisms) may need to be renegotiated, the process of which will consume resources of such fund client and may result in disputes among counterparties, the result of which may be adverse to such fund client. Considered in their entirety, the impacts of the discontinuation of

LIBOR on financial markets generally and on the specific financial contracts to which a fund client is a party may adversely affect the performance of such fund client.

## **Item 9 - Disciplinary Information**

Crestline has no legal or disciplinary event to report.

## Item 10 - Other Financial Industry Activities and Affiliations

### Funds

Crestline serves as investment manager and/or general partner of the following private pooled investment funds and private managed accounts, excluding those no longer offered or in liquidation:

CL AK Alexandria, L.P.  
CL AK Cubs, L.P.  
CL AK Fusion, L.P.  
CL AK Allele, L.P.  
CL AK Resilience, L.P.  
AKDL, L.P.  
Indigo AK, L.P.  
Crestline AK Advisory Investments, L.P.  
Crestline AK Advisory Investments II, L.P.  
Crestline AK Opportunistic Fund, L.P.  
Crestline AK Permanent Fund, L.P. (Class A and Class B)  
Blue Glacier Fund, L.P. (Class A, Class B, Class C and Class D)  
Crestline Alpamayo Offshore Fund, L.P.  
CL Alpamayo Trading Fund, L.P.  
Crestline Lion Fund Mini-Master, L.P.  
Crestline Lion Fund Feeder, L.P.  
Crestline 20/20 Offshore Trust  
Crestline EL Co-Investment, L.P.  
Concentrated Line Fund, L.P.  
Crestline Forty Fund, L.P.  
Crestline Makena Fund, L.P.  
Crestline Eagle Creek, L.P.  
Special PC Fund, L.P.  
Special Offshore Ltd. E  
C.L. – Ascent, L.P.  
CL Chowder Co-Invest, L.P.  
CL Gas, L.P.  
CL Wind, L.P.  
CL Oliver Co-Invest I, L.P.  
CL Oliver Co-Invest II, L.P.  
CL MSW Liquidity Solutions Fund, L.P.  
New Emerald Energy Holdings, L.L.C.  
Freedom Participation Partners I, L.L.C.  
Crestline Maple Operating Trust  
Crestline Maple Holdings Trust  
Crestline Menlo Fund, L.P.  
Crestline Retained Menlo Fund, L.P.

Crestline Offshore Menlo Fund, L.P.  
 Crestline Retained Offshore Menlo Fund, L.P.  
 Crestline Praeter, L.P. – Fulcrum  
 Crestline Praeter, L.P. – Harper  
 Crestline Praeter, L.P. - Oranje  
 Crestline Praeter, L.P. – Zoom  
 Crestline Opportunity Fund III (Europe) Master Fund D SCSp  
 Crestline Opportunity Fund III (Europe) Master Fund E SCSp  
 Crestline Opportunity Fund III (Ireland), DAC  
 Crestline Opportunity Fund III (Cayman), Ltd.  
 Crestline Opportunity Fund III TOPCO, DAC  
 Crestline Opportunity Fund III, L.L.C.  
 Crestline Opportunity Fund IV Master Fund I, L.P.  
 Crestline Opportunity Fund IV Master Fund II, L.P.  
 Crestline Opportunity Fund IV Master Fund III, L.P.  
 Crestline Opportunity Fund IV Master Fund IV, L.P.  
 Crestline Opportunity Fund IV Onshore STE, L.P.  
 Crestline Opportunity Fund IV Onshore TE, L.P.  
 Crestline Opportunity Fund IV Onshore T, L.P.  
 Crestline Opportunity Fund IV Offshore FT, L.P.  
 Crestline Opportunity Fund IV Offshore FNT, L.P.  
 Crestline Opportunity Fund SMA, L.P.  
 Crestline Opportunity Fund Offshore SMA Mini-Master, L.P.  
 Crestline Opportunity Fund Offshore SMA, L.P.  
 Crestline Portfolio Financing Fund, L.P.  
 Crestline Portfolio Financing Fund Offshore B, L.P. (Cayman)  
 Crestline Portfolio Financing Fund (US) L.L.C.  
 Crestline Portfolio Financing Fund (IRL) DAC  
 Crestline Portfolio Financing Fund II, L.P.  
 Crestline Portfolio Financing Fund II (US), L.P.  
 Crestline Portfolio Financing Fund II (TE/FNT), L.P.  
 Crestline Portfolio Financing Fund II (FT), L.P.  
 Crestline Portfolio Financing Fund II (IRL) ICAV  
 CL Recovery Trading Fund II, L.P.  
 CL Recovery Retained Trading Fund II, L.P.  
 Crestline Offshore Recovery Fund II, L.P.  
 CL Recovery Trading Fund III, L.P.  
 Crestline OSRF Holding III, L.P.  
 Crestline Offshore Recovery Fund III, L.P.  
 Crestline Recovery Fund II, L.P.  
 Crestline Retained Recovery Fund II, L.P.  
 Crestline Recovery Fund III, L.P.  
 Crestline Retained Recovery Fund III, L.P.



Eli Lilly Retirement Plan Master Trust  
 Crestline Specialty Lending, L.P.  
 Crestline Specialty Lending (CAN), L.P.  
 Crestline Specialty Lending (Cayman C), L.P.  
 Crestline Specialty Lending (IRL), L.P.  
 Crestline Specialty Lending (JPN), L.P.  
 Crestline Specialty Lending (US), L.P.  
 Crestline Specialty Lending II, L.P.  
 Crestline Specialty Lending II (CAN), L.P.  
 Crestline Specialty Lending II (Cayman C), L.P.  
 Crestline Specialty Lending II (IRL), L.P.  
 Crestline Specialty Lending II (JPN), L.P.  
 Crestline Specialty Lending II (US), L.P.  
 Crestline Specialty Lending III, L.P.  
 Crestline Specialty Lending III (US), L.P.  
 Crestline Specialty Lending III (FT), L.P.  
 Crestline Specialty Lending III (TE/FNT), L.P.  
 Crestline Specialty Lending III (IRL) ICAV  
 Crestline SLFIII Rated Note Feeder LLC  
 CL Opportunity Trading Fund II, L.P. (Class A, Class B, Class C and Class D)  
 Crestline Offshore Opportunity Fund II, L.P. (Class A, Class B, Class C and Class D)  
 Crestline Opportunity Fund II, L.P. (Class A and Class C)  
 Crestline Summit (Mid-Tier), SPC  
 Crestline Summit Equity Alpha  
 Crestline Summit Equity Alpha SPC  
 Crestline Summit Master, SPC – Peak SP  
 Trent River Offshore Limited (Class A and Class R1)  
 Crestline Summit APEX Mid-Tier, SP  
 Crestline Summit APEX (Offshore), SP  
 Crestline Summit Master, SPC – APEX SP

Other institutional investor accounts managed by relying adviser, Crestline Canada Sub, L.P.

As related entities, the above entities do not negotiate their terms on an arm's length basis with Crestline. Crestline fully discloses its fees to investors prior to their purchase of interests in the above fund clients.

Crestline Management, L.P. is a member of Crestline Denali Capital, LLC. As such, principal owners of Crestline Management, L.P. have an indirect ownership interest in Crestline Denali Capital, LLC (formerly known as Crestline Denali Capital, L.P.), an investment manager specializing in the sourcing, investment, management and administration of non-investment grade bank loans of CLOs formed prior to February 2020. Crestline Denali Capital, LLC ("Denali") is a relying adviser to Ares Management ("Ares") a non-affiliated and separately registered investment adviser. More information about Ares and Denali can be found on Ares' Form ADV.

In limited circumstances, Crestline may establish and manage a new fund client that derives its initial funding from the spin-off of an existing fund client or that is seeded by an existing fund client, thereby creating the potential for a conflict of interest. Furthermore, Crestline has the discretion to conduct a portion of the investment activities of certain fund clients by investing into another fund client with the desired investment strategy. In those circumstances, Crestline informs the investors in the existing fund client of the conflict and requests that they consent to the investment either directly or the investors consent via acceptance of the fund client's structure as part of their investment subscription. In addition, in such circumstances Crestline will waive the fees, either at the investing fund client level or will waive fees charged to a fund client by an affiliated underlying fund spun-off or seeded by a fund client so that investors in the seeding fund client are not charged two layers of fees.

A related party of Crestline, Crestline-Kirchner, L.P., provides a governance and oversight role with respect to a client that went through a fund restructuring, but does not provide these services to any clients of Crestline nor to any portfolio funds in which Crestline clients invest.

Crestline has an affiliate, Crestline Re SPC ("Crestline Re"), that acts as a reinsurance company. From time to time Crestline Re invest in investments alongside Crestline fund clients. Crestline addresses any allocation conflicts by following its investment allocation policy. However, conflicts could still arise with respect to the interests of Crestline clients. Dispositions of common Investments may not always occur simultaneously, due to differing investment time horizons, which may adversely impact returns. Crestline Re as a reinsurance business may have an incentive as a permanent capital vehicle to retain investments longer or may be required to sell investments early in order to achieve the liquidity required to meet obligations. An additional conflict of interest would exist if Crestline Re and another Crestline client were to hold Investments in different layers of the issuer's capital structure. Due to conflicts that would arise from pricing, Crestline treats any cross trades between Crestline Re and Crestline clients as principal cross trades requiring client approval (which may be given by the independent board or advisory committee of a fund client) and only recommends such trades when Crestline deems it to be in the client's best interests. Additionally, Crestline Re SPC will pay fees to CL Life and Annuity Insurance Company ("CLIC") in exchange for the premiums CLIC will cede to Crestline Re SPC.

Principal executive officers of Crestline are also associated with Bratton Capital Management, LP, or BCM, which is a firm that acts as the investment adviser and general partner to single family-office-related investments. Crestline and BCM are under common control. The principals of Crestline may provide advice to Crestline that is similar to the advice provided by BCM. Due to the different mandates of BCM clients versus Crestline clients the investments by BCM clients and Crestline clients are generally different. In circumstances where the investments are the same, Crestline clients receive priority with respect to such investments. Lastly, the principals are not obligated to acquire for any account any security that they believe, in their absolute discretion, is not suitable for the fund clients Crestline manages or clients of BCM.

## **Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Crestline acts as an investment manager to various fund clients. Crestline and certain of its related persons have invested their personal funds in these fund clients. Crestline may give advice and take action in the performance of its duties to its investors and fund clients that differs from the advice given, or the timing and nature of action taken, with respect to the accounts of its affiliates and/or other investors and fund clients.

### Code of Ethics and Personal Trading

To avoid any potential conflicts of interest involving personal trades, Crestline has adopted a written trading policies and procedures code, or the Code of Ethics, for its employees that includes a formal code of ethics and insider trading policies and procedures. Crestline has adopted procedures that are designed to ensure compliance with the provisions of the Code of Ethics, including pre-approval of certain personal securities transactions as required by applicable regulations, initial, quarterly and annual holdings reports and affirmations of compliance, and regular reviews of holdings and transactions. Crestline will provide a copy of the Code of Ethics to any client or prospective client upon request.

Crestline may from time to time, when consistent with the investment mandate of that client, cause a fund client to invest all or any portion of its assets in another fund client managed by Crestline in an investment product managed or advised by a portfolio manager in which Crestline or its related persons may have an ownership interest or in an investment opportunity alongside other fund clients managed by Crestline, thereby creating the potential for a conflict of interest. Crestline typically addresses the conflict of interests the above investment presents through client consent and by waiving one level of fees. For additional information regarding how Crestline addresses these conflicts, see “Other Financial Activities and Affiliations.”

Crestline has two insurance company affiliates, Crestline Re SPC (“Crestline Re”), that acts as a reinsurance company and CL Life and Annuity Insurance Company (“CLIC”). From time to time Crestline Re and CLIC invest in investments alongside Crestline fund clients. Crestline addresses any allocation conflicts by following its investment allocation policy. However, conflicts could still arise with respect to the interests of Crestline clients. Dispositions of common Investments may not always occur simultaneously, due to differing investment time horizons, which may adversely impact returns. Crestline Re as a reinsurance business may have an incentive as a permanent capital vehicle to retain investments longer or may be required to sell investments early in order to achieve the liquidity required to meet obligations. An additional conflict of interest would exist if Crestline Re and/or CLIC and another Crestline client were to hold Investments in different layers of the issuer’s capital structure. Due to conflicts that would arise from pricing, Crestline treats any cross trades between Crestline Re and or CLIC and Crestline clients as principal cross trades requiring client approval (which may be given by the independent board or advisory committee of a fund client) and only recommends such trades when Crestline deems it to be in the client’s best interests.

As discussed in response to the section “Other Financial Industry Activities and Affiliations,” certain principal owners of Crestline have an indirect ownership interest in Crestline Denali Capital, LLC

(“Crestline Denali”). It is not anticipated that Crestline would advise one or more of its fund clients to pursue an investment in a fund client managed by Crestline Denali. See the section entitled “Other Financial Industry Activities and Affiliations” for further discussion.

Crestline permits certain related parties (including knowledgeable employees) to invest in the same underlying private funds or other securities in which the fund clients invest. Permitting related persons to invest is subject to Crestline’s obligations to its fund clients and whether Crestline believes the investment is appropriate for those clients pursuant to their investment mandate. Crestline monitors such investments to ensure any investment capacity goes to the fund clients and only excess investment capacity is available to the related parties.

Crestline employees may benefit from educational events sponsored by industry service providers, such as prime brokers, administrators, law firms, audit firms, and other similar professional service firms.

## Item 12 - Brokerage Practices

Crestline uses brokers or dealers in connection with its segregated portfolio investment program. Brokers are selected for best execution capabilities. Best execution generally requires an investment adviser to execute securities transactions for clients in a manner such that the fund client's total cost or proceeds in each transaction is the most favorable under the circumstances. However, the lowest possible commission cost is not necessarily the determinative factor in achieving best execution. Other factors span the full range and quality of a broker's services in placing brokerage including, among other things, the value of research provided as well as execution capability, commission rate, financial responsibility, and responsiveness. Therefore, consideration of all relevant factors, including certain intangibles, ranging from "soft dollars" to a broker's customer service is essential in considering and evaluating best execution.

The segregated portfolio investment program is facilitated by sector specialist portfolio managers (each a "portfolio manager") who each have responsibility for a certain segment of the segregated portfolio investment program. The portfolio manager selects the broker to be used and the research and brokerage used, ensures the services satisfy the obligations of the safe harbor required by Section 28(e) of the Securities Exchange Act of 1934, as amended, and is responsible for seeking best execution when placing purchase or sell orders. The portfolio manager may be an external, unaffiliated manager or may be an employee of Crestline. Where trades are executed by an unaffiliated portfolio manager, such portfolio manager is responsible for developing appropriate trading policies and procedures that govern the placing of purchase and sell orders. Portfolio Managers are required to have written best execution policies. Crestline will periodically obtain documentation from the unaffiliated portfolio managers that evidence such trading practices.

Where the portfolio manager is internal to Crestline, Crestline has the authority to combine purchase or sell orders of the segregated portfolio and to allocate the securities or other assets so purchased or sold on an average-price basis or by any other method of fair allocation. Crestline also has the authority to pay brokerage commissions that may be in excess of the lowest rates available to brokers who execute transactions for the segregated portfolio and who supply, pay for or rebate the cost of brokerage, research or execution services utilized by cells and/or pay for or rebate a portion of the obligations of the segregated portfolio; provided that the selection of a broker shall be made on the basis of best execution, taking into consideration various factors, including commission rates, reliability, financial responsibility, strength of the broker and the ability of the broker to efficiently execute transactions, the broker's facilities, and the broker's provision or payment of the costs of brokerage and research services that are of benefit to the segregated portfolio.

In return for effecting securities transactions through a particular broker-dealer, the Firm may receive certain investment research products and/or services which assist the Firm in exercising its investment discretion over the investment process of the fund clients pursuant to Section 28(e) of the Securities Exchange Act of 1934, as amended (generally referred to as a "soft dollar" arrangement). Investment research products and/or services received by the Firm may include, but are not limited to, analyses pertaining to specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications, portfolio management systems, and statistical and pricing services. Soft dollars

generated by the segregated portfolio must be used by the portfolio manager or Crestline pursuant to Section 28(e) of the Securities Exchange Act of 1934 for the benefit of the segregated portfolio.

The external portfolio managers and Crestline will have the incentive to use soft dollars for research so that they will not have to pay for those services out of income. Given the structure of the segregated portfolio, it is possible that an external manager may use the research received due to the above soft dollars for the benefit of its other clients. In addition, Crestline, as a multi-manager platform may incur soft dollar credits which may be used for our own research purposes in managing the overall fund structure.

Crestline may also utilize brokers or dealers in connection with secondary market transactions and its “beta” solutions. There are no restrictions on Crestline’s authority to determine, without obtaining specific client consent, the brokers or dealers used for this purpose. Thus, to the extent these fund clients engage in transactions other than investments with portfolio managers, Crestline has the authority to determine the financial intermediaries to be used in connection with those transactions and to negotiate the amount of commission or other compensation to be paid to those intermediaries in connection with those transactions. In the limited circumstances in which these particular fund clients use broker-dealers, Crestline will consider a variety of factors including the overall ability of the broker-dealer to complete the trade and deliver securities as contemplated, the credit rating of the broker-dealer including the overall cost of the trade, including the cost of margin and any other factors deemed relevant at the time given market circumstances and goals of the trade. For these fund clients, Crestline negotiates the relevant compensation and seeks best execution for its clients and does not seek to obtain products or “soft dollars,” research or services other than transactional services from its intermediaries. Crestline periodically reviews arrangements with intermediaries to assess the quality of services provided by its intermediaries. Crestline has not engaged broker-dealers that act as clearing or executing brokers for any fund client to also act as placement or selling agents nor does it receive client referrals from those broker-dealers.

## **Item 13 - Review of Accounts**

In addition to the ongoing diligence described in “Methods of Analysis, Investment Strategies and Risk of Loss,” Crestline’s principals will review, on a monthly basis or more frequently (depending on market conditions or in special circumstances), its fund clients to ensure consistency with their objectives and restrictions. Fund clients and investors in those fund clients receive periodic unaudited performance reports related to the fund client in which they are invested (on a monthly or quarterly basis depending upon the nature of the fund client’s underlying investments), quarterly reports that include a discussion of investment performance along with data related to the relevant fund client, and annual audited financial statements of the relevant fund client. From time to time, due to investor needs or mandates certain investors in the fund clients request, Crestline or another related person may agree to provide those investors more frequent more detailed, stylistically different, or additional (typically for regulatory purposes) reports of the fund clients’ portfolio holdings or performance. Crestline monitors each fund client’s investment activity to compare it to the fund client’s investment guidelines.

## **Item 14 - Client Referrals and Other Compensation**

From time to time, Crestline enters into agreements with unaffiliated broker-dealers, investment advisers or solicitors, which are referred to collectively herein as Solicitors, regarding the solicitation and referral of potential clients for compensation. In addition, Crestline enters into agreements with Solicitors regarding the solicitation and referral of investors in the fund clients for compensation.

Crestline pays a percentage of the management fee and/or performance-based compensation collected from the fund clients to Solicitors. Crestline will disclose the structure of any referral agreements, including the compensation, to the relevant investor in the fund clients and to the fund clients to the extent required by applicable law. The fact that Crestline may share with Solicitors a portion of the compensation it receives for investment management services will not result in Crestline charging any investor in the fund clients or the fund clients a higher management fee rate or performance-based compensation rate than Crestline customarily charges investors in its fund clients for similar services, nor will Crestline charge a fund client or any investor in a fund client any other amount for the purpose of offsetting its cost of obtaining an account through a Solicitor. Different Solicitors may receive varying amounts of compensation for their services.



## **Item 15 - Custody**

For clients that originate loans, when funding through a syndicate managed as agent by an affiliate of Crestline that also includes third party lenders as well as other clients, an agency account is maintained by an affiliate of Crestline for purposes of funding loans and receiving amounts payable by a borrower in relation thereto, with cash amounts following through such agency account for a brief duration until disbursement to the borrower or syndicate lenders, as the case may be. Thus, for a short period of time, client assets may be comingled with the assets of third party syndicate lenders and other clients in the agency account. In such arrangements where an affiliate of Crestline acts as agent, collateral for security interests that are perfected by possession are held by the agent as named lienholder on behalf of all lenders, typically for the duration of the relevant loan.

Crestline delivers fund client investor audited financial statements for each fund client within 180 days of the fund client's calendar year end for fund of funds clients and within 120 days of calendar year end for other pooled clients.

## **Item 16 - Investment Discretion**

Crestline accepts discretionary authority to manage each fund client and its assets. Crestline typically receives discretionary authority, including a power of attorney, through a limited partnership agreement, subscription agreement, investment management or similar agreement between Crestline and the applicable fund client. In all cases, however, Crestline exercises its discretion in a manner consistent with the stated investment objectives for the particular fund client.

## Item 17 - Voting Client Securities

It is Crestline's policy to vote proxies in the interest of maximizing shareholder or investor value when Crestline needs to vote the securities that its fund clients hold. To that end, Crestline will vote in a way that it believes, consistent with its fiduciary duty, will cause the issue to increase the most or decline the least in value. Crestline will consider both the short and long term implications of the proposal to be voted on when determining the optimal vote. In addition, from time to time certain of the fund clients may request that Crestline vote on their behalf, in their capacity as investors in the underlying private fund, on certain proposals, amendments, consents or resolutions with respect to an underlying private fund. With respect to its segregated portfolio investment program whereby unaffiliated portfolio managers are engaged to provide portfolio management responsibilities to certain segments of the portfolio (each a "cell"), such unaffiliated portfolio managers are responsible for developing appropriate proxy policies and procedures that govern the voting of proxies on behalf of the respective cell for which the unaffiliated portfolio manager is engaged and Crestline will periodically obtain documentation that evidence the proxy voting practices. With respect to the portion of its segregated portfolio investment program administered by internal employee portfolio managers, a proxy voting service has been engaged to vote proxies on its behalf.

Crestline's proxy voting policies and procedures generally require Crestline to vote proxy proposals, amendments, consents or resolutions relating to Issuers of securities and/ or Investment Funds (collectively, "proxies") in a manner that serves the best interests of the Fund Client as determined by Crestline in its discretion, taking into account relevant factors including:

- the impact on the value of or on the prospective returns of the underlying private fund or security;
- the attraction of additional capital to the underlying private fund or security; alignment of the portfolio manager's interests with the interests of the underlying private fund's or security's investors;
- the costs associated with the amendment or vote being solicited;
- the impact on the fund client's redemption or withdrawal rights;
- the continued or increased availability of information regarding the underlying private fund's portfolio;
- industry developments and business practices; and
- the consistency with the fund clients' stated investment objectives.

In general, Crestline segregates its votes relating to underlying funds into two categories:

- primarily administrative or routine matters on which a vote is requested; and
- non-recurring or extraordinary matters, such as a material change in the terms of the underlying private funds.

Absent a particular reason to the contrary, it is Crestline's general policy to vote in accordance with the recommendation of the underlying private fund's portfolio manager or the security's management on administrative or routine matters.

In the case of non-recurring or extraordinary matters, such non-routine matters involve a variety of issues and may be proposed by Management or beneficial owners of an Investment Fund (i.e., shareholders, members, partners, etc. (collectively, the “Investors”)). These proxies may involve one or more of the following: (i) a measurable change in the structure, management, control or operation of the Investment Fund; (ii) a measurable change in the terms of, or fees or expenses associated with, an investment in the Investment Fund; or (iii) a change that is inconsistent with industry standards and/or the laws or regulations set by the state of formation of or regulatory authority overseeing an Investment Fund. Decisions regarding Investment Fund proxies will be determined on a case-by-case basis taking into account the general policy, as set forth above.

There may be circumstances when refraining from voting a proxy is in a fund client’s best interest, such as when and if the Firm determines that the cost of voting the proxy exceeds the expected benefit to the fund client or is otherwise appropriate. Crestline will abstain from voting (which generally requires submission of a proxy voting card), or affirmatively decide not to vote, if it determines that abstaining or not voting is in the best interests of a fund client.

At times, conflicts may arise between the interests of a fund client, on the one hand, and the interests of Crestline and its affiliates, on the other hand. Crestline will identify any conflicts that exist between its interests and a fund client. This examination will include a review of the relationship of Crestline and its affiliates with the underlying manager or the issuer of the security to determine if the manager or issuer has any relationship with Crestline or an affiliate. If a material conflict exists, Crestline will determine the appropriate course of action, which may include seeking the advice of an independent third party or a committee regarding the voting of a proxy.

Investors may obtain a copy of the Proxy Policies and procedures and information on how each fund client voted its respective securities by contacting Crestline.

## **Item 18 - Financial Information**

Crestline has no financial commitment or condition that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.